



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2706  
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE  
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
JOHN NAIMO  
MARIA M. OMS

May 20, 2008

TO: Supervisor Yvonne B Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy Watanabe*  
Acting Auditor-Controller

SUBJECT: **MANAGED CAREER SOLUTIONS, INC. CONTRACT – A COMMUNITY  
AND SENIOR SERVICES WORKFORCE INVESTMENT ACT  
PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of Managed Career Solutions, Inc. (MCS or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider.

**Background**

CSS contracts with MCS, a private for-profit organization to provide and operate the WIA Adult and Dislocated Worker Programs. The WIA Adult and Dislocated Worker Programs assist individuals obtain employment, retain their jobs and increase their earnings. The type of services provided by MCS include occupational skills training, job placement and career planning. MCS' office is located in the Fifth District.

MCS is compensated on a cost reimbursement basis and has a contract for \$136,575 for Fiscal Year (FY) 2007-08.

**Purpose/Methodology**

The purpose of the review was to determine whether MCS complied with its contract terms and appropriately accounted for and spent WIA funds in providing services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

### **Results of Review**

Generally, MCS provided the program services to eligible participants. The Agency also updated the Job Training Automation system to report the services provided to the participants. However, MCS did not implement 10 (63%) of the 16 recommendations contained in our prior year's review. In addition, MCS did not obtain criminal clearances for all five WIA employees sampled during our current review. MCS also billed CSS \$6,567 in unsupported and unallowable program expenditures. Specifically, MCS:

- Did not maintain adequate documentation to support program expenditures totaling \$3,895.
- Exceeded budgeted amounts by \$2,522. The County contract requires contractors to request reimbursement for actual expenditures incurred during the program year, not to exceed budgeted amounts.
- Billed CSS \$150 of non-WIA related expenditures.

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with MCS and CSS on April 15, 2008. In their attached response, MCS indicated that they provided us with documentation to support the program expenditures. However, the documentation that the Agency provided throughout our review process did not sufficiently support all of the disallowed expenditures identified in our report. In instances where the Agency provided sufficient supporting documentation, we adjusted our report accordingly. Due to the confidential nature of the documents provided, such as timecards, participant's names, etc, we did not include all the attachments submitted by MCS.

We thank MCS for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

- c: William T Fujioka, Chief Executive Officer  
Cynthia Banks, Director, Department of Community and Senior Services  
Philip Starr, Psy.D., CEO, Managed Career Solutions, Inc.  
Public Information Office  
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM  
MANAGED CAREER SOLUTIONS, INC.  
FISCAL YEAR 2007-08**

**ELIGIBILITY**

**Objective**

Determine whether Managed Career Solutions, Inc. (MCS or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

**Verification**

We reviewed the case files for 19 (86%) of the 22 program participants (ten from the WIA Adult Program and nine from the WIA Dislocated Worker Program) that received services from July 2007 to January 2008 for documentation to confirm their eligibility for WIA services.

**Results**

All 19 participants met the eligibility requirements for the WIA programs.

**Recommendation**

There are no recommendations for this section.

**BILLED SERVICES/CLIENT VERIFICATION**

**Objective**

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

**Verification**

We reviewed the documentation contained in the case files for 19 (86%) participants that received services from July 2007 through January 2008. We also interviewed eight participants.

**Results**

The eight participants interviewed stated that the services they received met their expectations. In addition, MCS provided the services in accordance with the County contract and WIA guidelines.

**Recommendation**

**There are no recommendations for this section.**

**PERFORMANCE OUTCOMES****Objective**

Determine whether the Agency met the planned performance measures as outlined in the County contract and accurately reported the performance outcomes to the Workforce Investment Board (WIB).

**Verification**

We compared MCS' reported Fiscal Year (FY) 2006-07 performance outcomes to their planned performance measures outlined in the County contract and the program activities reported on the Job Training Automation (JTA) system. We also reviewed the documentation contained in the case files for 20 (39%) of the 51 participants reported as having completed training and/or placed in employment during FY 2006-07.

**Results**

Generally, the FY 2006-07 performance outcomes for MCS were accurately reported to the WIB and their case files contained documentation to support the program activities reported on the JTA system.

**Recommendation**

**There are no recommendations for this section.**

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's December 2007 bank reconciliation.

**Results**

MCS maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

**Recommendation**

There are no recommendations for this section.

**EXPENDITURES/PROCUREMENT****Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 60 non-personnel expenditure transactions billed by the Agency for July through October 2007, totaling \$27,000.

**Results**

MCS billed Community and Senior Services (CSS) \$14,286 in unsupported expenditures. Specifically, MCS allocated CSS for unsupported shared program expenditures, such as rent and training. Subsequent to our review, MCS obtained documentation to support the \$14,286 in unsupported expenditures.

In addition, MCS inappropriately charged \$715 of direct WIA Adult Program expenditures, such as tuition reimbursement and supportive services, to the WIA Dislocated Worker program. A similar finding was also noted during prior year's monitoring review.

**Recommendations****MCS management:**

1. **Reallocate the \$715 direct program expenditures to the appropriate WIA program.**

- 2. Maintain adequate documentation to support program expenditures.**
- 3. Ensure that program expenditures are appropriately billed to the benefiting programs.**

### **ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**

#### **Objective**

Determine whether the Agency maintained sufficient administrative controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

#### **Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various areas such as expenditures, payroll and personnel.

#### **Results**

MCS maintained sufficient controls over its business operations. However, MCS did not perform a fair market assessment for their leased facility. The lease agreement was renewed on March 1, 2007. In addition, MCS was not in compliance with their internal policies and procedures. Specifically MCS did not complete Request for Funding forms or obtain proper authorization to make purchases as required in their accounting policies and procedures. Similar findings were also noted during prior year's monitoring review.

#### **Recommendations**

##### **MCS management:**

- 4. Conduct a fair market assessment for their leased facility.**
- 5. Ensure that the Agency complies with its own accounting policies and procedures.**

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether MCS' fixed assets and equipment purchased with WIA funds are used for the WIA programs and are safeguarded.

**Verification**

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment listing. In addition, we performed a physical inventory and reviewed the usage of ten items funded by WIA funds.

**Results**

MCS used the equipment purchased with WIA funds for the WIA programs and the assets were safeguarded. However, MCS' equipment and inventory listing did not include all the required information, such as acquisition cost, serial or identification number, item description, funding source, location and the percentage of federal participation in the cost of the property, as required by the County contract. A similar finding was also noted during prior year's monitoring review.

Subsequent to our review, MCS provided an updated equipment and inventory listing that included all the required information.

**Recommendation**

6. MCS management maintain an equipment and inventory listing in compliance with County contract requirements.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures were appropriately charged to the WIA programs. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced the payroll expenditures invoiced for five employees totaling \$19,900, for July through October 2007 to the Agency's payroll records and time reports. We also interviewed three staff and reviewed the personnel files for five employees assigned to the WIA programs.

**Results**

MCS' employee timecards did not indicate the hours worked each day by program for all five employees as required by the County contract. According to MSC personnel, payroll expenditures were billed based on budgeted amounts not actual hours worked. Subsequent to our review, MCS provided revised timecards to support the unsupported payroll expenditures.

MCS also did not obtain criminal clearances or complete the annual performance evaluations for all five employees sampled. In addition, MCS did not maintain copies of the employees' job descriptions for one (20%) employee or signed acknowledgement and confidentiality agreements for four (80%) of the five employees sampled. Similar findings were also noted during prior year's monitoring review.

Subsequent to our review, MCS provided signed acknowledgement and confidentiality agreements for all four employees.

### **Recommendations**

#### **MCS management:**

- 7. Ensure that employees' timecards indicate the total hours worked each day by program to support the payroll expenditures.**
- 8. Bill CSS based on actual hours worked not budgeted amounts.**
- 9. Obtain criminal clearances for all employees.**
- 10. Ensure that the annual performance evaluations are completed and maintained in the employees' personnel files.**
- 11. Maintain required documentation in the employees' personnel files.**

### **COST ALLOCATION PLAN**

#### **Objective**

Determine whether MCS' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

#### **Verification**

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency from July to October 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

#### **Results**

MCS' Cost Allocation Plan was prepared in compliance with the County contract. However, as previously indicated, MCS did not allocate costs in compliance with the Cost Allocation Plan. Specifically, MCS billed CSS \$14,286 in shared program expenditures without supporting documentation.



In addition, MCS billed payroll expenditures based on budgeted amounts not actual hours worked. As a result, we recommended that MCS management maintain adequate documentation to support the program expenditures, ensure that program expenditures are appropriately billed to the benefiting programs and charge payroll expenditures based on actual hours worked not budgeted amounts.

**Recommendation**

**Refer to Recommendations 2, 3 and 8.**

**CLOSE-OUT REVIEW****Objective**

Determine whether the Agency's FY 2006-07 final close-out invoices reconciled to the Agency's financial accounting records.

**Verification**

We traced MCS' FY 2006-07 general ledgers to the Agency's final close-out invoices for FY 2006-07. In addition, we reviewed a sample of expenditures incurred from January to June 2007

**Results**

MCS billed CSS \$5,852 in FY 2006-07 for unsupported and unallowable expenditures. Specifically:

- MCS' FY 2006-07 final close-out invoices did not reconcile to the Agency's financial records. Unsupported expenditures totaled \$3,180. Subsequent to our review, MCS provided additional documentation to support the expenditures. However, the expenditures were not recorded on their general ledger.
- MCS' program expenditures exceeded budgeted amounts by \$2,522. The County contract requires contractors to request for reimbursement for actual expenditures incurred during the program year not to exceed budgeted amounts.
- MCS billed CSS \$150 in non-WIA related expenditures.

Similar findings were also noted during prior year's monitoring review.

**Recommendations**

**MCS management:**

**12. Repay CSS \$5,852.**

13. Request for reimbursement only for actual expenditures.
14. Ensure that amounts billed to CSS do not exceed the budgeted amounts.
15. Bill CSS only for WIA related expenditures.

**PRIOR YEAR FOLLOW-UP**

**Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

**Verification**

We verified whether the outstanding recommendations from FY 2006-07 monitoring review were implemented. The report was issued on August 21, 2007.

**Results**

The prior year's monitoring report contained 16 recommendations. MCS implemented four recommendations. As previously indicated, the findings related to Recommendations 2, 4, 5, 6, 9, 10, 11, 13, 14, and 15 contained in this report were also noted during the prior year's monitoring review. The remaining two recommendations required the Agency to repay CSS \$7,949. MCS management stated they will implement the outstanding recommendations by June 30, 2008.

Subsequent to our review, MCS repaid CSS \$7,949.

**Recommendation**

16. MCS management implement the outstanding recommendations.

**MCS** **Managed Career Solutions, Inc.**  
(dba MCS Rehabilitation)

Philip Starr, Psy.D., C.R.C., A.B.V.E.  
Esteban Magallanes, Psy.D., C.R.C., C.D.M.S.

April 24, 2008

Wendy L. Watanabe, Acting, Auditor-Controller  
Department of Auditor-Controller  
Countrywide Contract Monitoring Division  
1000 S. Fremont Avenue, Unit #51  
Alhambra, CA 91803

Attn: Yoon Bae

This is to submit our response to the findings and recommendation on the draft audit report dated April 17, 2007.

**Finding: Unsupported Expenditure amounting to \$14,286; inappropriately charged \$715 of direct WIA Adult program expenditures (tuition reimbursement and support services to WIA Dislocated program.**

For the Period from July to October 2007, MCS incurred actual expenditure of \$50,004 breakdown as follow:

	<u>Total</u>	<u>Adult</u>	<u>Dislocated</u>
Salaries	19,900	10,946	8,954
Payroll Taxes/Fringes	<u>4,604</u>	<u>2,532</u>	<u>2,072</u>
Total Personnel Cost	<u>24,504</u>	<u>13,478</u>	<u>11,026</u>
Other Costs (Rent, Supplies Insurance and other)	12,786	7,007	5,779
Customized Training Costs	9,900	6,300	3,600
Support Services	<u>2,914</u>	<u>1,548</u>	<u>1,266</u>
Total Participant Related	<u>12,814</u>	<u>7,848</u>	<u>4,866</u>

Payroll and payroll taxes are supported by timesheet, payroll register (generated by ADP); other fringes are supported by actual invoice and check disbursed to health insurance. Other costs, such as rent, supplies and other expenses are supported by actual invoice, checks paid. Participant related costs (customized training and support services) are documented by Contract with the training provider, attendance sheet, certificate of attendance and completion and invoice paid. Support services related to training are all supported (such as books, transportation, supplies) properly documented with acknowledgment of the clients. All supporting documents were presented to the auditor as they requested.

Expenses are booked and recorded in the General Ledger as direct cost to WIA Asian Pacific Islander (API) Program. Based on the percentage of time allocation of the direct staff, all expenses per General Ledger are allocated to Adult and Dislocated Workers Program. Allocation worksheet was also presented to the auditor at the time of the audit. Direct costs, such as customized training and support services are directly charged to the program Adult and Dislocated. Based on the monthly allocation worksheet, invoice billing is generated.

As discussed and agreed in our exit conference, we will require the direct staff to allocate their time to Adult and Dislocated in their timesheet. We will then use the direct staff allocated time to the program to allocate all expenses. Direct expenses such as tuition fee, customized training and support service expenses will be charged directly to the program.

Attached is the actual timesheet of the direct staff of API Program from July to October 2007. Actual time is allocated to Adult and Dislocated Worker program. Also attached is the revised allocation of cumulative expenses from July to October using the % of time allocation from the actual worksheet.

Please be informed that we referred our systems procedure to Ms. Linda Manion, during the costs allocation training provided by Community and Senior Services, who agreed that our allocation and reporting system are acceptable and within the WIA guidelines.

We are also in the process of conducting internal audit and review of all the transactions from July to October to recheck and verify and ensure accuracy of program expenditures and are appropriately billed to benefiting program. Adjustment, correction if any will be booked via Adjusting Journal entry and billing invoice for the month of April 2008 will be corrected accordingly.

**Finding      MCS did not perform a fair market assessment for the facility its currently leases.**

MCS always informally conducts assessment of the rental rate on every facility we signed lease agreement to ensure that we have a fair costs advantage to both to the agency and its funding entity. Please note that as indicated in our original proposal, we will be using the same facility for our API program and we have a very reasonable competitive lease rate and at the right location for this program. We agree with recommendation, and we will conduct a fair market assessment prior to renewing our lease.

**Finding MCS did not submit Request for Funding (RFF) forms or obtain proper authorization for disbursements and purchasing transactions as required by the Agency's accounting policies and procedures**

All disbursement are reviewed and checked by the Director of Finance and by the authorized signatory upon final signing of the check. Moreover, all the disbursements were fully documented by vendor invoice, service delivery receipts/attendance sheets and evidence that the program received the goods and/or services paid. We will make sure that disbursements will have the form **Request for Funding** attached to the check and properly signed and approved by the authorized officer as required by the Accounting Policies and Procedures.

**Finding Equipment and Inventory listing did not include all the required information such as acquisition costs, serial number or other identification number, item description, funding source as required by the County Contract.**

Attached is the updated list of Equipment and Inventory of to include all the information required by the County contract.

**Finding MCS billed CSS \$19,900 in unsupported payroll expenditures. Employee timecard s did not indicate the hours worked each day by program for all five employees.**

As mentioned above, all expenditure including payroll are adequately supported by timesheet, payroll registered and ADP generated reports. Payroll expenditures are billed based direct staff time allocation and NOT by budget. Actual timesheet of the direct staff with allocation of time to the Adult and Dislocated Worker program signed by the staff are attached.

We contacted American Live Scan located at Wilshire Area, Los Angeles and schedule an appointment for the criminal background checking by April 28, 2008. Annual evaluation report will also be included in the employees' personnel file.

**Finding Billed CSS \$5,852 in FY 2006-07 in unsupported and unallowable expenditure**

- General Liability Insurance as required by the County contract was purchased and was paid. However the expense (\$1,920) was inadvertently not recorded. Attached is the actual invoices paid and allocated costs for the WIA County contract. Adjusting journal entry to record the expense allocation is attached.
- Customized training of 7 clients was originally contracted for C.N.A licensing for a total costs of \$8,400 and was recorded as liability in the General Ledger. Due to

one (1) client drop out, actual invoice and payment made was reduced by \$1200. MCS will repay back CSS in the amount of \$1,200.

- Documents for the Supportive service paid for client Marshall Rosales amounting to \$60.00 are attached. This was also presented to the auditor at the time of the audit. Please note that the books and uniform was acknowledged by the client that they received the item and is required for their training.
- Attached summary of actual costs per general ledger as compared to actual amount billed at closeout June 30, 2007 shows actual expenditure is more than what was billed. Moreover comparison of actual amount billed as compared with the budget disclosed no discrepancies. Please note also, as of June 30, 2007 we have \$8,779.78 stand-in costs per our record.
- Below will show that Profit billed is within the contract agreement/budget for both Adult and Dislocated Workers Program.

	Adult	Dislocated	Total
Actual costs per General Ledger	76,908	73,987	150,896
5% Profit	3,845	3,699	7,544
Profit Billed	3,010	3,642	6,652

- MCS will repay back CSS for \$150.00 non-WIA expenditure erroneously billed to the program.

For prior year finding, MCS issued the check amount of \$7,949 to Community And Senior Services to comply with requirement per audit report.

Should you need additional information, please call my staff Tito Maturan at 213 381 3110 ext 239.



Philip Starr, Psy. D.  
Executive Director